

CITY OF FENTON, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

T.P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis - Statement of Activities and Net Position	A 10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes In Cash Balances	D 12
Notes to Financial Statements	13-19
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	20
Notes to Other Information – Budgetary Reporting	21
Supplementary Information	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 22
Schedule of Indebtedness	2 23
Schedule of Bond and Note Maturities	3 24
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 25
Schedule of Expenditures of Federal Awards	5 26

Table of Contents-continued

	<u>Page</u>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Independent Auditor's Report on Compliance for Each Major Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	29-30
Summary Schedule of Prior Audit Findings	31
Schedule of Findings and Questioned Costs	32-34

CITY OF FENTON, IOWA
OFFICIALS

June 30, 2013

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Mayor	Alan Miller	December 2015
Council Person	Ryan Harms	December 2017
Council Person	Mike Blocker	December 2017
Council Person	Roger Struecker	December 2015
Council Person	Larry Geitzenauer	December 2015
Council Person	Paul Jorgenson	December 2017



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fenton, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

As permitted by the Code of Iowa, the accounting records of the City of Fenton have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at June 30, 2012.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary has we been able to verify the distribution by fund of total fund balance at July 1, 2012 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fenton as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fenton's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 9 and 20 and 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014 on our consideration of the City of Fenton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fenton's internal control over financial reporting and compliance.

T.P. Anderson & Company

February 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fenton, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City has not presented financial statements in previous years, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's cash basis financial position and results of operations.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were \$184,000 for fiscal 2013.
- Disbursements were \$151,000, in fiscal 2013.
- The City's total cash basis net position increased 13%, or approximately \$54,000 from June 30, 2012 to June 30, 2013. The City's governmental activities cash balance increased \$33,000 while its business type activities cash balance increased approximately \$20,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position-Cash Basis. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of the federal program that benefited the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the

financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis - Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis - Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis - Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sanitary sewer system, and solid waste funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sanitary sewer, and garbage collection.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$234 thousand to \$268 thousand. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30,
		2013
Receipts and transfers:		
Program receipts:		
Charges for service	\$	21
Operating grants, contributions and restricted interest		69
General receipts		
Property tax		54
Utility excise tax		4
Local option sales tax		33
Unrestricted investment earnings		2
Other general receipts		2
Total receipts and transfers		185
Disbursements:		
Public safety		28
Public works		30
Culture and recreation		35
General government		32
Debt service		9
Transfers		17
Total disbursements		151
Increase in cash basis net position		34
Cash basis net position beginning of year		234
Cash basis net position end of year	\$	268

The cost of all governmental activities this year was \$151,000. However, as shown in the Cash Basis - Statement of Activities and Net Position on page 10, the amount taxpayers ultimately financed for these activities was \$44,000 because some of the cost was paid by those who directly benefited from the programs (\$20,600) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$69,300). Overall, the City's governmental activities receipts, including intergovernmental aid, restricted contributions, and fees for service, were \$90,000 in 2013. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$90,000 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year ended June 30,
		2013
Receipts:		
Charges for service:		
Water	\$	53
Sewer rental		77

Garbage	31
General receipts:	
Unrestricted interest on investments	1
Capital grant	761
Other	2
Transfers	17
Total receipts	942
Disbursements and transfers:	
Water	88
Sewer rental	805
Garbage	29
Total disbursements and transfers	922
Other Financing Sources/Uses	
Proceeds from refunding notes	1,332,000
Notes refunded	(1,332,000)
Total Other financing sources	-
Change in cash basis net position	20
Cash basis net position beginning of year	163
Cash basis net position end of year	183

Total business type activities receipts for the fiscal year 2013 were approximately \$942,000, inflated significantly by the grant money received for the wastewater treatment system improvements. The net position-cash balance increased by approximately \$20,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fenton completed the year, its governmental funds reported a combined fund balance of \$267,757, an increase of approximately \$33,000 from last year's total of \$234,444. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$24,000 from the prior year to approximately \$242,000 as planned during budgeting.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$17,000 to \$46,320. The decrease is mainly due to major maintenance required in fiscal year 2013 on the water tower and system.
- The Sewer Fund cash balance increased by \$34,000 to \$101,000, because rates have been increased to fund debt service and to provide cash flows to cover the required deposits to various reserve accounts required by the Sewer Revenue Notes.
- The Garbage Fund cash balance increased by \$3,478 to \$36,254, due mainly to planned results.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was

approved on May 6, 2013 and resulted in an increase in intergovernmental receipts of \$150,539 and an increase in other financing sources of \$7,356. The amendment also increased budgeted disbursements for the year by \$148,828, mainly in the business type activity function (138,828).

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$1,400,000 in bonds and other long-term debt, compared to approximately \$1,431,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
General obligation bonds	\$ 30	38
Revenue notes	1,370	1,393
Total	\$ 1,400	1,431

Debt decreased during the year ended June 30, 2013. The City also refunded wastewater revenue notes to extend the principal maturities. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the actual value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$30 thousand is within its constitutional debt limit of \$265,053.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fenton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees that will be charged for various City activities.

It is always a difficult task trying to put the budget together not knowing what the State Legislature would do. Current state budget difficulties are expected to trickle down and affect the City. In these uncertain economic times, it is a big concern again this year.

Another concern is proposed changes to the property tax system. It has been brought up in the last two legislative sessions and will be brought up again. It is very probable that any changes made will have an adverse effect on the amount of money the City will be able to generate from property taxes. Public Safety and Culture and Recreation program areas are mainly funded by property taxes.

Many of the City's expenditures such as fuel costs, street maintenance, and water tower maintenance continue to increase. These types of increases have been taken into account in setting the fiscal year 2014 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City of Fenton's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Susan Potraz, City Clerk, 611 Maple Street, Fenton, Iowa 50539.

Basic Financial Statements

CITY OF FENTON, IOWA

CASH BASIS - STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 27,841	20,534	25,768	-
Public works	30,293	-	25,650	-
Culture and recreation	35,176	100	17,837	-
General government	31,532	-	-	-
Debt service	9,212	-	-	-
Total government activities	134,054	20,634	69,255	-
Business type activities:				
Water	88,117	53,458	-	-
Sewer	805,136	77,016	-	761,259
Garbage	28,767	30,678	-	-
Total business type activities	922,020	161,152	-	761,259
Total	\$ 1,056,074	181,786	69,255	761,259

General Receipts

Property tax levied for:
 General purposes
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Proceeds from refunding bonds
Bonds refunded
Transfers

Total general receipts and transfers

Change in cash basis net position

Cash beginning of year

Cash end of year

Cash Basis Net Position

Restricted
 Expendable:
 Streets
 Debt service
 Other purposes
Unrestricted

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in

Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

18,461	-	18,461
(4,643)	-	(4,643)
(17,239)	-	(17,239)
(31,532)	-	(31,532)
(9,212)	-	(9,212)

(44,165)	-	(44,165)
----------	---	----------

-	(34,659)	(34,659)
-	33,139	33,139
-	1,911	1,911

-	391	391
---	-----	-----

(44,165)	391	(43,774)
----------	-----	----------

48,139	-	48,139
9,256	-	9,256
32,718	-	32,718
2,010	1,422	3,432
2,355	1,457	3,812
-	1,332,000	1,332,000
-	(1,332,000)	(1,332,000)
(17,000)	17,000	-

77,478	19,879	97,357
--------	--------	--------

33,313	20,270	53,583
--------	--------	--------

234,444	163,276	397,720
---------	---------	---------

\$ 267,757	183,546	451,303
------------	---------	---------

15,519	-	15,519
185	-	185
9,740	-	9,740
242,313	183,546	425,859

\$ 267,757	183,546	451,303
------------	---------	---------

CITY OF FENTON, IOWA

Exhibit B

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	General	Other Nonmajor Governmental Funds	Total
Receipts:			
Property tax	\$ 32,028	21,865	\$ 53,893
Other city tax	2,073	1,429	3,502
Licenses and permits	431	-	431
Use of money and property	2,010	-	2,010
Intergovernmental	29,903	58,368	88,271
Charges for service	25,581	-	25,581
Miscellaneous	10,679	-	10,679
	<u>102,705</u>	<u>81,662</u>	<u>\$ 184,367</u>
Disbursements:			
Public safety	27,841	-	27,841
Public works	8,612	21,681	30,293
Culture and recreation	35,176	-	35,176
General government	31,532	-	31,532
Debt service	-	9,212	9,212
	<u>103,161</u>	<u>30,893</u>	<u>134,054</u>
Excess (deficiency) of receipts over (under) disbursements	(456)	50,769	50,313
Other financing sources (uses):			
Operating transfers in	23,999	-	23,999
Operating transfers out	-	(40,999)	(40,999)
	<u>23,999</u>	<u>(40,999)</u>	<u>(17,000)</u>
Net change in cash balances	23,543	9,770	33,313
Balance beginning of year	<u>218,770</u>	<u>15,674</u>	<u>234,444</u>
Balance end of year	<u>\$ 242,313</u>	<u>25,444</u>	<u>\$ 267,757</u>
Cash basis fund balance			
Restricted for:			
Debt service	-	185	185
Streets	4,492	15,519	20,011
Other purposes	-	9,740	9,740
Public Safety	171,824	-	171,824
Assigned for:			
Public Safety	28,240	-	28,240
Library	17,442	-	17,442
Unassigned	20,314	-	20,314
Total cash basis fund balances	<u>\$ 242,313</u>	<u>25,444</u>	<u>\$ 267,756</u>

See notes to financial statements.

CITY OF FENTON, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Water	Sewer	Garbage	Total
Receipts				
Charges for service	\$ 53,458	77,016	30,678	161,152
Disbursements				
Total operating disbursements	62,178	18,749	28,767	109,694
	62,178	18,749	28,767	109,694
Excess (deficiency) of operating receipts over (under) operating disbursements	(8,720)	58,267	1,911	51,458
Non-operating receipts (disbursements):				
Interest on investments	486	656	280	1,422
Intergovernmental	-	761,259	-	761,259
Miscellaneous	170	-	1,287	1,457
Debt Service	(14,739)	(46,031)	-	(60,770)
Capital Expenditures	(11,200)	(740,356)	-	(751,556)
Net non-operating receipts (disbursements)	(25,283)	(24,472)	1,567	(48,188)
Excess of receipts over disbursements	(34,003)	33,795	3,478	3,270
Other financing sources (uses):				
Proceeds from refunding bonds	-	1,332,000	-	1,332,000
Notes refunded	-	(1,332,000)	-	(1,332,000)
Operating transfers in	17,000	-	-	17,000
	17,000	-	-	17,000
Net change in cash balances	(17,003)	33,795	3,478	20,270
Balance beginning of year	63,323	67,177	32,776	163,276
Balance end of year	\$ 46,320	100,972	36,254	183,546
Cash Basis Fund Balances				
Restricted for debt service	\$ 34.00	89,420	-	89,454
Unrestricted	46,286	11,552	36,254	94,092
	\$ 46,286	100,972	36,254	183,546

See notes to financial statements.

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of Significant Accounting Policies**

The City of Fenton is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1903 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general government services. The City also provides water, sewer, solid waste and landfill utilities and garbage collection for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fenton has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Area Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis - Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

This Cash Basis - Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis - Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water distribution system. It also accounts for the payment of interest and principal on the City's Water Revenue Loan Notes.

The Sewer Fund accounts for operation and maintenance of the City's wastewater treatment and sanitary sewer system. It also accounts for the payment of interest and principal on the City's Sewer Revenue Notes.

The Garbage Fund accounts for operation and maintenance of the City's garbage collection system.

C. Measurement Focus and Basis of Accounting

The City of Fenton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the U.S. generally accepted accounting principles.

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursements toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances may be classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Investments

The City's deposits at June 30, 2013 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending	General Obligation		Revenue Notes		Total Debt	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	7,994	1,217	34,331	29,968	42,325	31,185
2015	8,366	846	35,390	28,908	43,756	29,754
2016	8,754	457	36,487	27,811	45,241	28,268
2017	5,274	77	31,400	26,720	36,674	26,797
2018	-	-	23,460	26,100	23,460	26,100
2019-2023	-	-	125,114	122,686	125,114	122,686
2024-2028	-	-	139,204	108,596	139,204	108,596
2029-2033	-	-	154,883	92,917	154,883	92,917
2034-2038	-	-	172,327	75,473	172,327	75,473
2039-2043	-	-	191,734	56,066	191,734	56,066
2044-2048	-	-	213,329	34,472	213,329	34,472
2049-2053	-	-	212,128	10,548	212,128	10,548
	30,388	2,597	1,369,787	640,265	1,400,175	642,862

During the year ended June 30, 2013, the City of Fenton refunded short term revenue notes with \$1,332,000 of Sewer Revenue Notes from the USDA Rural Development. The purpose of the refunding was to extend the maturities of the refunding notes.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay \$1,332,000 of sewer revenue notes issued in December 2012. These notes were used to refund construction period bonds. These notes are payable only from sewer customer net receipts and are payable through 2053. Monthly principal and interest on the notes are expected to require nearly 100% of the sewer fund net receipts. Total principal and interest remaining to be paid in the notes is \$2,010,052. For the current year, principal and interest paid (not including the refunded bonds) and total customer net receipts were

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

\$24,780 and \$58,267, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements to repay \$160,000 of water revenue notes issued in January 2002. These notes are payable only from water customer net receipts and are payable through 2017. Monthly principal and interest on the notes are expected to require nearly 100% of water fund net receipts. Total principal and interest remaining to be paid in the notes is \$32,985. For the current year, principal and interest paid and total customer net receipts were \$14,739 and \$(19,920), respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to the Sewer sinking funds for the purpose of making the note's principal and interest payments when due.
- c. Numerous reserve accounts were required to be established and maintained by the Sewer Revenue Notes. They are to remain either fully funded or monthly transfers are to be made until such time that the reserve accounts have been fully funded.

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

	G.O. Bonds	Revenue Bonds	
Balance, beginning of year	\$ 38,027	1,392,842	1,430,869
Additions	-	1,332,000	1,332,000
Decreases	7,639	1,355,055	1,362,694
Balance, end of year	<u>\$ 30,388</u>	<u>1,369,787</u>	<u>1,400,175</u>

Interest rates on the general obligation bonds are 4.55%. The interest rate on the City's outstanding revenue notes ranged from 2.13 to 4.55% as of June 30, 2013.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered payroll. Certain employees in special risk occupations and the

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$6,541, \$4,866, and \$4,697, respectively, equal to the required contributions for each year.

(5) **Compensated Absences**

City employees accumulate vacation and sick leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated.

These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate liability for earned vacation payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2013</u>
Vacation pay	\$ <u>460</u>

(6) **Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2013 is as follows:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue Fund	
	Emergency	\$ 856
	LOST	10,000
	Employee benefits	13,143
	Total General	<u>23,999</u>
Water	LOST	17,000
		<u>\$ 40,999</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) **Risk Management**

The City of Fenton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF FENTON, IOWA

NOTES TO FINANCIAL STATEMENTS

(8) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Fenton. Property taxes become liens on property as of July 1, 2011 and are payable in September and March of the fiscal year. The valuation for the taxes was based on January 1, 2010 assessed property valuations, and are based on a certified budget from March of 2011.

(9) Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 24, 2014, the date the financial statements were issued.

Other Information

CITY OF FENTON, IOWA

Budgetary Comparison of Receipts, Disbursements and Changes
in Balances - Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds

OTHER INFORMATION

Year Ended June 30, 2013

			Less Funds not Required to be Budgeted	Net
	Government al Funds Activity	Proprietary Funds Activity		
Receipts				
Property tax	\$ 53,893	-	-	53,893
Other city tax	3,502	-	-	3,502
Licenses and permits	431	-	-	431
Use of money and property	2,010	1,422	-	3,432
Intergovernmental	88,271	761,259	-	849,530
Charges for service	25,581	161,152	-	186,733
Miscellaneous	10,679	1,457	-	12,136
Total receipts	184,367	925,290	-	1,109,657
Disbursements:				
Program				
Public safety	27,841	-	-	27,841
Public works	30,293	-	-	30,293
Culture and recreation	35,176	-	-	35,176
General government	31,532	-	-	31,532
Debt service	9,212	-	-	9,212
Business type activities	-	922,020	-	922,020
Total disbursements	134,054	922,020	-	1,056,074
Excess (deficiency) of receipts over disbursements	50,313	3,270	-	53,583
Other financing sources (uses)	(17,000)	17,000	-	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	33,313	20,270	-	53,583
Balance - beginning of year	234,444	163,276	-	397,720
Balance - end of year	\$ 267,757	183,546	-	451,303

See Accompanying Independent Auditor's Report

Budgeted Amounts

Original	Final	Final to Net Variance
53,663	53,663	\$ 230
30,498	30,498	(26,996)
455	455	(24)
4,845	4,845	(1,413)
808,406	958,945	(109,415)
167,050	167,050	19,683
6,650	6,650	5,486
1,071,567	1,222,106	(112,449)
63,810	63,810	35,969
38,610	42,610	12,317
35,910	35,910	734
28,459	34,459	2,927
9,212	9,212	-
923,140	1,061,968	139,948
1,099,141	1,247,969	191,895
(27,574)	(25,863)	79,446
-	-	-
(27,574)	(25,863)	79,446
392,983	397,719	1
365,409	371,856	\$ 79,447

CITY OF FENTON, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$150,539 and budgeted disbursements by \$148,828. The budget amendment is reflected in the final budgeted amounts.

CITY OF FENTON, IOWA

Schedule 1

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Special Revenue						
	Employee Benefits	Road Use Tax	Local Option Sales Tax	Emergency	Debt Service	Total
Receipts:						
Property tax	12,368	-	-	808	8,689	\$ 21,865
Other city tax	809	-	-	53	567	1,429
Licenses and permits	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	-	25,650	32,718	-	-	58,368
Charges for service	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
	13,177	25,650	32,718	861	9,256	\$ 81,662
Disbursements:						
Public safety	-	-	-	-	-	-
Public works	-	21,681	-	-	-	21,681
Debt service	-	-	-	-	9,212	9,212
	-	21,681	-	-	9,212	30,893
Excess (deficiency) of receipts over (under) dis	13,177	3,969	32,718	861	44	50,769.00
Other financing sources (uses):						
Retirement of refunded bond						-
Operating transfers in	(13,143)	-	(27,000)	(856)	-	(40,999)
Operating transfers out	-	-	-	-	-	-
	(13,143)	-	(27,000)	(856)	-	(40,999)
Net change in cash balances	34	3,969	5,718	5	44	9,770
Balance beginning of year	-	11,550	3,983	-	141	15,674
Balance end of year	34	15,519	9,701	5	185	25,444
Cash basis fund balance						
Restricted for:						
Debt service	-	-	-	-	185	185
Streets	-	15,519	-	-	-	15,519
Other purposes	34	-	9,701	5	-	9,740
Total cash basis fund balances	34	15,519	9,701	5	185	\$ 25,444

See accompanying independent auditor's report

CITY OF FENTON, IOWA

Schedule 2

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds/notes:									
Water Improvement	January 15, 2002	4.55%	100,000	\$ 38,027	-	7,639	30,388	1,572	-
				38,027	-	7,639	30,388	1,572	-
Revenue bonds:									
USDA Sewer Improvement Interim Financing	July 1, 2011	2.13%	1,332,000	1,332,000	-	1,332,000	-		
Water System Improvement	January 15, 2002	4.55%	160,000	60,842	-	12,223	48,619	2,516	
USDA Sewer Revenue Bonds	December 3, 2012	2.13%	1,086,000	-	1,086,000	8,733	1,077,267	11,469	
USDA Sewer Revenue Bonds	December 3, 2012	2.13%	\$ 246,000	-	246,000	2,099	243,901	2,479	-
				\$ 1,392,842	1,332,000	1,355,055	1,369,787	16,464	-

See accompanying independent auditor's report.

CITY OF FENTON, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2013

Year Ending June 30,	GO Water Improvement		
	Loan		Total GO Notes
	Issued Jan. 15, 2002		
	Interest		
	Rates	Amount	
2014	4.55%	7,994	\$ 7,994
2015	4.55%	8,366	8,366
2016	4.55%	8,754	8,754
2017	4.55%	5,274	5,274
		<u>\$ 30,388</u>	<u>30,388</u>

Year Ending June 30,	Water Revenue Note		Sewer Revenue Note		Sewer Revenue Note		Total
	Issued Jan 15, 2002		Issued Dec 3, 2012		Issued Dec 3, 2012		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2014	4.55%	12,791	2.135%	17,683	2.135%	4,009	34,483
2015	4.55%	13,385	2.135%	18,062	2.135%	4,095	35,542
2016	4.55%	14,007	2.135%	18,450	2.135%	4,183	36,640
2017	4.55%	8,436	2.135%	18,846	2.135%	4,273	31,555
2018			2.135%	19,250	2.135%	4,365	23,615
2019-2023			2.135%	102,627	2.135%	23,270	125,897
2024-2028			2.135%	114,123	2.135%	25,876	139,999
2029-2033			2.135%	126,903	2.135%	28,773	155,676
2034-2038			2.135%	141,116	2.135%	31,995	173,111
2039-2043			2.135%	156,920	2.135%	35,579	192,499
2044-2048			2.135%	174,494	2.135%	39,563	214,057
2049-2053			2.135%	168,793	2.135%	37,920	206,713
		\$ 48,619		1,077,267		243,901	1,369,787

See accompanying independent auditor's report.

CITY OF FENTON, IOWA

Schedule 4

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For 2013

	<u>2013</u>
Receipts	
Property tax	\$ 53,893
Other city tax	3,502
Licenses and permits	431
Use of money and property	2,010
Intergovernmental	88,271
Charges for service	25,581
Miscellaneous	10,679
Total receipts	<u>\$ 184,367</u>
Disbursements:	
Operating:	
Public safety	\$ 27,841
Public works	30,293
Culture and recreation	35,176
General government	31,532
Debt service	9,212
Total disbursements	<u>\$ 134,054</u>

See Accompanying Independent Auditor's Report

CITY OF FENTON, IOWA

Schedule 5

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Direct Program			
Water and Waste Disposal Systems for Rural Communities	10.760		<u>2,072,356</u>
Total			<u><u>\$ 2,072,356</u></u>

Basis of Presentation - the Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Eagle Grove, Iowa and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Fenton

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fenton, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City Fenton, Iowa's basic financial statements and have issued our report thereon dated February 24, 2014. Our report expressed qualified opinions on the financial statements with were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fenton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fenton's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fenton's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, II-A-13, described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fenton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Cost.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all of the transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fenton's Response to Findings

The City of Fenton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Fenton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

T.P. Anderson & Company

February 24, 2014



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Fenton's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Fenton's major federal program for the year ended June 30, 2013. City of Fenton's major federal program is identified in Part I of the accompanying Schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Fenton's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fenton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Fenton's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Fenton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fenton's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify a deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

T.P. Anderson & Company

February 24, 2014

CITY OF FENTON, IOWA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

The City was not audited in previous years and therefore there are no prior audit findings to summarize here.

CITY OF FENTON, IOWA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued for the governmental activities, business type activities, each major fund, and the aggregate remaining fund information for the City of Fenton.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with office of Management and Budget Circular A-133, Section 510(a).
- (g) The major program for the Fiscal Year ended June 30, 2013 was CFDA# 10.760, Water and Waste Disposal Systems for Rural Communities. The City of Fenton spent \$2,072,356 under this program during the Year Ended June 30, 2013.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Fenton did not qualify as a low-risk audit.

CITY OF FENTON, IOWA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Cause – The lack of segregation of duties is due to the size of the office staff.

Effect – there is a higher risk of misstatement due to the lack of segregation of duties.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Client Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance: None noted

Material Weaknesses: None noted

CITY OF FENTON, IOWA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-13 Certified Budget – Disbursements were within budgeted limits for the year ended June 30, 2013.
- IV-B-13 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-13 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- IV-D-13 Business Transactions – We did not identify any business transactions between the City and its officials or employees.
- IV-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- IV-H-13 Revenue Bonds and Notes – The city has complied with all revenue bond and note resolutions.